National Association of Wheat Growers

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Testimony of John Thaemert

Chairman of the Domestic Policy Committee
National Association of Wheat Growers
to the
General Farm Commodities and Risk Management Subcommittee
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Mr. Chairman, The National Association of Wheat Growers is pleased to have this opportunity to offer our thoughts on crop insurance reform. We applaud Chairman Moran and the subcommittee for their efforts to provide effective and affordable insurance for farmers.

Crop insurance needs reform, a fact made evident by the need for disaster legislation last year. The passage of the Agricultural Risk Protection Act (ARPA) was a major improvement in crop insurance. Our proposals today build on ARPA's reforms and assume their continuance. Nevertheless, the cost of higher levels of coverage, continuous drought, and the inability of crop insurance to address the needs of disaster affected farmers has led NAWG to list crop insurance reform as one of our top priorities.

We understand clearly the current budget environment; farmers operate under tight budgets also. Our proposals intend to be cost effective, especially compared to disaster funding.

NAWG has four primary goals for crop insurance reform. They are, in order of priority, as follows:

1. More affordable coverage at higher levels.
2. Prevent or slow declining Actual Production History (APH) due to consecutive disasters.
3. Establish Farm Savings Accounts, which become available in the event of disaster.
4. Establish a minimum loss standard.

I'll discuss each of these in turn.

Coverage levels

The higher levels of coverage currently available are not affordable. The most cost-effective coverage for producers is either 65% MPCI (APH) or 70% CRC, therefore these are the levels most farmers purchase (see Kansas and national RMA data in Tables 1,2 and 3). Consequently, most farmers face a 30 - 35% deductible in the event of disaster. The five year average net return to operator labor and management for wheat farms in the North Central Kansas Farm Management Association database is about 18.9% (Profit Center Analysis: 5- year & 2002, Table 4). At 70% CRC a farmer looses roughly 1½ years of income before any claim is paid. An 85% coverage would cover some of this gap, however higher coverage must be affordable. To raise my farms coverage to 85% from 70% for 2003 would have cost $1 of premium for each $2.45 of additional coverage. The availability of higher coverage is of little use if a farmer cannot afford the premium.

In order to help producers reach higher coverage levels; the cost of higher coverage must be reduced.

Actual Production History

The nation's wheat growers know all too well the effects of prolonged drought. Until this year, much of the nation's Wheat Belt suffered from two to six years of drought. Even though much of the nation's breadbasket produced a good wheat crop this year – particularly my home state of Kansas – there are still dry areas within our member states which are now in their seventh consecutive year of drought. Each year of crop failure reduces a farmer's APH, eroding the safety net provided by crop insurance.

The minimum yield plug is an effective tool. However, the current 60% plug is to low. We suggest the level of coverage purchased by the producer as an appropriate yield plug factor. For example, if a farmer purchased 75% coverage, their yield plug option would be 75%. This rewards the producer who buys up coverage. Another factor to consider is that a T yield based on a short time frame is impacted more drastically by consecutive disasters. It is my understanding the current T yield plug is based on NASS 10-year historical data per county. If the T yield were based on a longer time frame the effect of consecutive disasters would be minimized. Also, the use of a T yield plug as it is currently calculated puts good farmers on the same level as average or poor farmers. We suggest an APH factor adjustment to the T yield that would take into account a producer's APH deviation from county average, both above and below the average.

Farmers need a more stable yield "plug" floor for support during consecutive disasters.

Farm Savings Accounts

NAWG and other farm organizations have supported the creation of these accounts in previous Farm Bills. Tax-deductible contributions with taxable distributions would be fundamental principles of these accounts. A USDA match as well as tax deferred growth would provide incentive for account establishment.

These Disaster Reserve Accounts held in local financial institutions would provide stability to farm income and security in the form of deposits to rural lenders and communities in case of disaster.

Minimum Loss Standard

It is discouraging for a farmer to be told by a crop adjuster that a small bushel yield will be deducted from their claim since there is some crop remaining in a disaster affected field. Currently a farmer with an APH of 40 bushel per acre and 70% crop insurance assumes a 28 bushel per acre guarantee. The custom harvest cost for wheat in Kansas is around $14/acre (which does not include transportation cost). At this cost and a $3.00 per bushel price (current central Kansas CCC loan rate is around $2.85/bushel) a farmer with an appraised salvage yield of 4 bushel/acre couldn't justify harvesting the remaining crop. This scenario effectively drops his coverage to 24 bushel per acre or a 60% guarantee instead of 70%.

When the cost of harvesting a loss affected field exceeds the appraised salvage value, that field or insured unit should be given an effective appraisal of "0".

Conclusion

Mr. Chairman and members of the subcommittee, we thank you for this opportunity to testify, and we look forward to working with you on this effort. I'll be happy to respond to any questions you may have, and pledge NAWG's assistance to you in developing, refining and implementing a more effective risk management product.

Table 1; RMA data for Kansas wheat crop insurance coverage at various levels
Table 2 and 3; RMA data for national wheat crop insurance at various coverage and available levels.
Table 4; North Central Kansas Farm Management Association data